

# LYNCHBURG CITY COUNCIL

## Agenda Item Summary

MEETING DATE: **December 16, 2003, Work Session**

AGENDA ITEM NO.: 6

CONSENT:

REGULAR: **X**

CLOSED SESSION:  
(Confidential)

ACTION: **X**

INFORMATION:

**ITEM TITLE: Lynchburg Neighborhood Development Foundation Request Regarding a 15 Year Exemption Period During Which Taxes On Improvements To Certain Rehabilitated Properties Are Exempted**

### RECOMMENDATION:

Give direction to staff regarding the request of the Lynchburg Neighborhood Development Foundation (LNDF) to allow for a 15 year period during which real property taxes on improvements to certain rehabilitated properties are exempted.

### SUMMARY:

The State Code allows for an exemption period of up to fifteen years for the rehabilitation of residential property. Currently, Lynchburg provides the exemption for ten years. LNDF is requesting that the City amend its ordinance to allow for a 15 year period during which taxes on improvements to certain rehabilitated properties are exempted. LNDF contends that certain projects, such as College Hill Homes and Central City Homes, would benefit from the 15 year maximum abatement period. These projects, that incorporate Low-Income Housing Tax Credits in their financing structure, have to meet certain restrictions for the compliance period of 15 years. Since these programs operate on very low rents, and the impact of full taxes on improvements in year 11 can result in a significant adjustment to projected budgets, LNDF believes that taking advantage of the 15 year period would be beneficial to the long-term success of these projects. The ordinance could be tailored to the types of projects that operate on such a narrow margin due to the restricted rents and extended compliance periods.

PRIOR ACTION(S): None

FISCAL IMPACT: The City would lose tax revenue for an additional five years on these projects.

CONTACT(S): Laura N. Dupuy; 846-6964

ATTACHMENT(S): November 6 Letter from Ms. Dupuy; Excerpt from the Virginia State Code, Excerpt from the City Code, Comparison to other cities,

REVIEWED BY: lkp

**Excerpt from the Lynchburg City Code**

**Sec. 36-177. Exemption of real estate taxes for certain rehabilitated residential and commercial and industrial real estate.**

(a) Definitions. For the purpose of this section, the following words and phrases shall have the meaning respectively ascribed to them by this subsection unless another meaning shall clearly appear from the text:

(1) Substantially rehabilitated residential/multifamily (6 units or more) real estate: Real estate upon which there is an existing residential or multifamily structure, which is no less than fifty (50) years of age, and which has been so improved as to increase the assessed value of the structure by no less than forty (40) per cent, but without increasing the total square footage of such structure by more than fifteen (15) per cent.

(2) Substantially rehabilitated commercial or industrial real estate: Any real estate upon which there is an existing commercial or industrial structure which is no less than twenty-five (25) years of age, and which has been so improved as to increase the assessed value of the structure by no less than sixty (60) per cent.

(3) Base value: The assessed value of any structure covered by this section prior to the commencement of rehabilitation work, as determined by the city assessor upon receipt of an eligible application for rehabilitated real estate tax exemption and after a physical inspection of the property by an appraiser from the city assessor's office.

(4) Rehabilitated real estate tax exemption: An amount equal to the increase in assessed value resulting from the substantial rehabilitation of a structure as determined by the city assessor and this amount only should be applicable to subsequent tax exemption.

(5) Taxable year: For the purpose of this section, the fiscal year from July 1 through June 30 for which such real estate tax is imposed for the exemption claimed.

(6) Owner: The person or entity in whose name the structure is titled or a lessee who is legally obligated to pay real estate taxes assessed against the structure.

(b) Rehabilitated real estate tax exemptions. It is hereby declared to be the purpose of this section to authorize a rehabilitated real estate tax exemption for substantially rehabilitated residential, multifamily, commercial or industrial real estate located anywhere within the City of Lynchburg. For each residential and multifamily property that qualifies, the rehabilitated real estate tax exemption shall be effective for a period of ten (10) years commencing on July 1 for any work completed during the preceding fiscal year. For each commercial or industrial

property that qualifies, the rehabilitated real estate tax exemption shall be effective for a period of five (5) years commencing on July 1 for any work completed during the preceding fiscal year.

(c) Usual and customary methods of assessing. In determining the base value and the increased value resulting from substantial rehabilitation of residential, multifamily, commercial or industrial real estate, the city assessor shall employ usual and customary methods of assessing real estate.

(d) Eligibility requirements:

(1) An application to qualify a structure as a substantially rehabilitated residential, multifamily, commercial or industrial structure must be filed with the city assessor's office before work is started. Applications may be obtained from the city assessor's office.

(2) Upon receipt of an application for rehabilitated real estate tax exemption, an appraiser from the city assessor's office shall make a physical inspection of the structure and determine the assessed base value of the structure. If work has been started prior to the first inspection; the base value will include any work started and will reflect the market value of the structure as of the date of the first inspection.

(3) The application to qualify shall be effective for a period of two (2) years from the date of filing. No extensions of this time period will be granted.

(4) Upon completion of the rehabilitation, the owner of the property shall notify the city assessor in writing, and an appraiser from the city assessor's office shall physically inspect the property and perform an after rehabilitation appraisal to determine if it then qualifies for the rehabilitated real estate tax exemption.

(5) Upon determination that the property has been substantially rehabilitated pursuant to the terms of this section, the rehabilitated real estate tax exemption shall become effective for a period as provided in paragraph (b) hereof.

(6) Prior to a determination that the property has been substantially rehabilitated, the owner of the property shall continue to be subject to taxation upon the full value of the property, as otherwise authorized by this code.

(7) No improvements made upon vacant land nor total replacement of residential, multifamily, commercial or industrial structures shall be eligible for rehabilitated real estate tax exemption.

(8) No property shall be eligible for such exemption unless the appropriate building permits have been acquired and the city assessor has verified that the rehabilitation indicated on the application has been completed.

(9) Multifamily residential structures after rehabilitation is completed shall remain as such for the remainder of the exemption period.

(10) There shall be a non-refundable fee of one hundred twenty-five dollars (\$125.00) for processing each residential application and two hundred fifty dollars (\$250.00) for processing each multi-family, commercial or industrial application under this section.

(11) The property must at all times be in compliance with all Lynchburg city codes including, without limitation, the building code, the rental housing code, the zoning ordinance and all other codes that relate to real estate within the City of Lynchburg. Failure to correct the violation within the required time, as provided by the building inspector, will void the remainder of the exemption. If a structure is damaged or destroyed and found to be uninhabitable, the exemption will be terminated.

(12) No exemption shall be granted if access to the entire property is denied to the city assessor's office or the inspections division.

(13) All taxes must be paid and current to be eligible for an exemption. If the city assessor is notified by the billing and collections department that the property is more than thirty (30) days delinquent on taxes, then the remainder of the exemption will be void.

(14) Only one rehabilitation exemption may be active for a parcel at any given time.

(e) Exemption to run with the land. The rehabilitated real estate tax exemption shall run with the land, and the owner of such property during each of the years of exemption shall be entitled to the amount of partial exemption. (Ord. No. O-82-252, § 1, 12-14-82; Ord. No. O-84-274, § 1, 11-27-84, eff. 7-1-84; Ord. No. O-88-277, § 1, 10-11-88; Ord. No. O-93-331, 12-14-93; Ord. No. O-03-040, 2-25-03, eff. 4-1-03)

# LYNCHBURG NEIGHBORHOOD DEVELOPMENT FOUNDATION

927 Church Street  
Lynchburg, VA 24504

Phone (804) 846-6964  
Fax (804) 846-6966

Laura N. Dupuy  
Executive Director

November 6, 2003

L. Kimball Payne, III  
City of Lynchburg  
900 Church St.  
Lynchburg, VA 24504

RE: Rehabilitation Tax Exemption

Dear Kim:

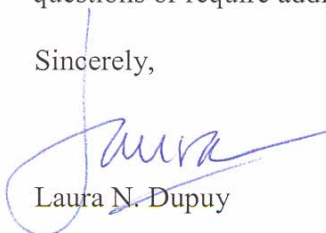
I am writing to follow up on previous discussion concerning the term during which taxes on improvements to rehabilitated properties are exempted. Currently, the City's ordinance allows for a 10 year period for residential properties. According to Walter Erwin, the state allows for a fifteen period.

Last year, when other aspects of this ordinance were discussed in a City Council work session, the issue was raised that certain projects, such as College Hill Homes and Central City Homes, would benefit from the maximum abatement period. These projects, that incorporate Low-Income Housing Tax Credits in their financing structure, have to meet certain restrictions for the compliance period of fifteen years. These programs operate on very low rents, and the impact of full taxes on improvements in year 11 can result in a significant adjustment to projected budgets. Taking advantage of the 15 period allowed by law, would be beneficial to the long-term success of these projects.

This request can be narrowly tailored to the types of projects that operate on such a narrow margin due to the restricted rents and extended compliance periods. Although this would defer City tax revenue for another five years, both of these projects have turned burdensome properties into productive residential units, thereby contributing to the City's assets so that any revenue can flow now or in the future.

Thank you for considering this request and bringing it before the City Council. If you have any questions or require additional information, please let me know.

Sincerely,



Laura N. Dupuy

**RECEIVED**  
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CITY OF LYNCHBURG

## **Excerpt From the Virginia State Code**

### **§ 58.1-3220. Partial exemption for certain rehabilitated, renovated or replacement residential structures.**

A. The governing body of any county, city or town may, by ordinance, provide for the partial exemption from taxation of real estate on which any structure or other improvement no less than fifteen years of age has undergone substantial rehabilitation, renovation or replacement for residential use, subject to such conditions as the ordinance may prescribe. The ordinance may, in addition to any other restrictions hereinafter provided, restrict such exemptions to real property located within described zones or districts whose boundaries shall be determined by the governing body. The governing body of a county, city or town may (i) establish criteria for determining whether real estate qualifies for the partial exemption authorized by this provision, (ii) require such structures to be older than fifteen years of age, (iii) establish requirements for the square footage of replacement structures, and (iv) place such other restrictions and conditions on such property as may be prescribed by ordinance. Such ordinance may also provide for the partial exemption from taxation of multifamily residential units that have been substantially rehabilitated by replacement for multifamily use.

B. The partial exemption provided by the local governing body may be an amount equal to the increase in assessed value or a percentage of such increase resulting from the rehabilitation, renovation or replacement of the structure as determined by the commissioner of revenue or other local assessing officer or an amount up to fifty percent of the cost of the rehabilitation, renovation or replacement, as determined by ordinance. The exemption may commence upon completion of the rehabilitation, renovation or replacement or on January 1 of the year following completion of the rehabilitation, renovation or replacement and shall run with the real estate for a period of no longer than fifteen years. The governing body of a county, city or town may place a shorter time limitation on the length of such exemption, or reduce the amount of the exemption in annual steps over the entire period or a portion thereof, in such manner as the ordinance may prescribe.

C. Nothing in this section shall be construed as to permit the commissioner of the revenue to list upon the land book any reduced value due to the exemption provided in subsection B.

D. The governing body of any county, city or town may assess a fee not to exceed one hundred twenty-five dollars for residential properties, or two hundred fifty dollars for commercial, industrial, and/or apartment properties of six units or more for processing an application requesting the exemption provided by this section. No property shall be eligible for such exemption unless the appropriate building permits have been acquired and the commissioner of the revenue or assessing officer has verified that the rehabilitation, renovation or replacement indicated on the application has been completed.

E. Where rehabilitation is achieved through demolition and replacement of an existing structure, the exemption provided in subsection A shall not apply when any structure demolished is a registered Virginia landmark or is determined by the Department of Historic Resources to contribute to the significance of a registered historic district.

(Code 1950, § 58-760.2; 1979, c. 195; 1980, c. 417; 1981, c. 625; 1984, cc. 675, 750; 1986, c. 271; 1989, cc. 89, 656; 1994, cc. 424, 435; 1995, c. 673; 2001, c. 489; 2002, cc. 21, 144.)

REHABILITATION EXEMPTION PROGRAM										
CURRENT CITY CODE FOR FIRST CITIES										
LOCALITY	MINIMUM AGE (YEARS)	TIME TO COMPLETE (YEARS)	EXEMPTION PERIOD (YEARS)	MIN. ASSESS. INCREASE TO QUALIFY	MAX. % OF SQUARE FOOT INCREASE	REQUIRE OWNER OCCUPANCY	APPLICATION FEE	TRANSFERS W/ REAL ESTATE	ALLOWS TOTAL REPLACEMENT	WHEN TO APPLY
CODE OF VIRGINIA										
RESIDENTIAL	15	N/A	15 MAX	ASSESSMENT INCREASE	30%	NO	\$125 MAX	YES	YES	N/A
MULTI-FAMILY(6 UNITS+)	15	N/A	15 MAX	ASSESSMENT INCREASE	30%	NO	\$250 MAX	YES	YES	N/A
COMMERCIAL	20	N/A	15 MAX	ASSESSMENT INCREASE	NO LIMIT	NO	\$250 MAX	YES	YES	N/A
ENTERPRISE ZONE	15	N/A	15 MAX	ASSESSMENT INCREASE	NO LIMIT	NO	\$125/\$250 MAX	YES	YES	N/A
LYNCHBURG										
RESIDENTIAL	25	2	10	40%	15%	NO	\$0	YES	NO	WITHIN 30 DAYS OF PERMIT
MULTI-FAMILY(5 UNITS+)	25	2	10	20%	15%	NO	\$0	YES	NO	WITHIN 30 DAYS OF PERMIT
COMMERCIAL	25	2	5	60%	15%	NO	\$0	YES	YES	WITHIN 30 DAYS OF PERMIT
CHARLOTTESVILLE										
RESIDENTIAL	25	2	7	20%	NO LIMIT	YES	\$50	YES	YES	AT PERMIT FILING
MULTI-FAMILY(6 UNITS+)	NO PROGRAM									
COMMERCIAL	NO PROGRAM									
DANVILLE										
RESIDENTIAL	PRIOR 1945	2	15	25%	15%	NO	\$50	YES	NO	PRIOR TO REHAB WORK
MULTI-FAMILY(6 UNITS+)	PRIOR 1945	2	15	25%	15%	NO	\$50	YES	NO	PRIOR TO REHAB WORK
COMMERCIAL	PRIOR 1945	2	15	25%	15%	NO	\$50	YES	NO	PRIOR TO REHAB WORK
FREDERICKSBURG										
RESIDENTIAL	25	2	7 (STEP DOWN)	40%	15%	NO	\$20	YES	YES	PRIOR TO REHAB WORK
MULTI-FAMILY(6 UNITS+)	25	2	7 (STEP DOWN)	40%	30%	NO	\$20	YES	YES	PRIOR TO REHAB WORK
COMMERCIAL	25	2	7 (STEP DOWN)	60%	15%	NO	\$20	YES	YES	PRIOR TO REHAB WORK
HAMPTON										
RESIDENTIAL	25	1	6 (3@100%, 3@50%)	40%	15%	NO	\$50	YES	NO	WITHIN 5 DAYS OF PERMIT
MULTI-FAMILY(6 UNITS+)	25	1	6 (3@100%, 3@50%)	40%	15%	NO	\$50	YES	NO	WITHIN 5 DAYS OF PERMIT
COMMERCIAL	25	1.5	6 (3@100%, 3@50%)	60%	25%	NO	\$100	YES	NO	WITHIN 5 DAYS OF PERMIT
HOPEWELL										
RESIDENTIAL	25	2	10	25%	100%	NO	\$50	YES	NO	PRIOR TO REHAB WORK
MULTI-FAMILY(6 UNITS+)	25	2	10	40%	50%	NO	\$50	YES	NO	PRIOR TO REHAB WORK
COMMERCIAL	25	2	10	40%	100%	NO	\$50	YES	NO	PRIOR TO REHAB WORK
NEWPORT NEWS										
RESIDENTIAL	25	N/A	15 (6@100%, 9@10%STEP)	30%	30%	NO	\$0	YES	NO	WITHIN 18 MONTHS OF COMPLETION
COMMERCIAL	25	N/A	5	60%	15%	NO	\$0	YES	NO	WITHIN 18 MONTHS OF COMPLETION
ENTERPRISE ZONE	25	N/A	5	\$50,000	15%	NO	\$0	YES	NO	WITHIN 18 MONTHS OF COMPLETION
NORFOLK										
RESIDENTIAL	15	1	10 (5@100%, 5@20%STEP)	10%	NO LIMIT	YES	\$50	YES	NO	PRIOR TO REHAB WORK
MULTI-FAMILY(6 UNITS+)	NO PROGRAM									
COMMERCIAL	NO PROGRAM									
PETERSBURG										
RESIDENTIAL	50	0.5	5	40%	15%	NO	\$20	NO	YES	AT PERMIT FILING
MULTI-FAMILY(6 UNITS+)	50	0.5	5	40%	15%	NO	\$20	NO	YES	AT PERMIT FILING
COMMERCIAL	50	0.5	5	60%	15%	NO	\$20	NO	YES	AT PERMIT FILING
PORTSMOUTH										
RESIDENTIAL	40	N/A	5	40%	15%	NO	\$50	NO	YES	WITHIN 10 DAYS OF PERMIT
MULTI-FAMILY(6 UNITS+)	40	N/A	5	40%	15%	NO	\$50	NO	YES	WITHIN 10 DAYS OF PERMIT
COMMERCIAL	40	N/A	5	60%	15%	NO	\$50	NO	YES	WITHIN 10 DAYS OF PERMIT
RM/COMM IN URBAN ZONE	25	N/A	10	40/60%	15%	NO	\$50	NO	YES	WITHIN 10 DAYS OF PERMIT
RICHMOND										
RESIDENTIAL	15	3	15 (10@100%, 5@20%STEP)	20%	30%	NO	\$50	YES	YES	AT PERMIT FILING
MULTI-FAMILY(6 UNITS+)	15	3	15 (10@100%, 5@20%STEP)	40%	30%	NO	\$50	YES	YES-130% MAX	AT PERMIT FILING
COMMERCIAL	20	3	15 (10@100%, 5@20%STEP)	40%	0%	NO	\$50	YES	YES-100% MAX	AT PERMIT FILING
ENTERPRISE ZONE	15	3	15	40%	10%	NO	\$50	YES	YES-110% MAX	AT PERMIT FILING
ROANOKE										
RESIDENTIAL	25	2	5	40%	15%	NO	\$50	YES	NO	PRIOR TO REHAB WORK



REHABILITATION EXEMPTION PROGRAM										
CURRENT CITY CODE FOR FIRST CITIES										
	MINIMUM AGE	TIME TO COMPLETE	EXEMPTION PERIOD	MIN. ASSESS. INCREASE	MAX. % OF SQUARE	REQUIRE	APPLICATION	TRANSFERS	ALLOWS	WHEN TO
LOCALITY	(YEARS)	(YEARS)	(YEARS)	TO QUALIFY	FOOT INCREASE	OWNER OCCUPANCY	FEE	W/ REAL ESTATE	TOTAL REPLACEMENT	APPLY
MULTI-FAMILY(6 UNITS+)	25	2	5	40%	15%	NO	\$50	YES	NO	PRIOR TO REHAB WORK
COMMERCIAL	25	2	5	60%	15%	NO	\$50	YES	NO	PRIOR TO REHAB WORK
ENTERPRISE ZONE	15	1	5	\$50,000	0%	NO	\$50	YES	NO	PRIOR TO REHAB WORK
STAUNTON										
RESIDENTIAL	25	2	7	40%	15%	NO	\$20	YES	NO	PRIOR TO REHAB WORK
MULTI-FAMILY(6 UNITS+)	25	2	7	40%	15%	NO	\$20	YES	NO	PRIOR TO REHAB WORK
COMMERCIAL	25	2	7	60%	0%	NO	\$20	YES	NO	PRIOR TO REHAB WORK
WINCHESTER										
RESIDENTIAL	25	N/A	10	40%	15%	NO	\$20	YES	NO	PRIOR TO REHAB WORK
MULTI-FAMILY(6 UNITS+)	25	N/A	10	40%	15%	NO	\$20	YES	NO	PRIOR TO REHAB WORK
COMMERCIAL	25	N/A	10	60%	15%	NO	\$20	YES	NO	PRIOR TO REHAB WORK